Hint. Look for the following chart patterns (If you find others, great!): rounding bottom, 3 diamonds, 3 rising valleys, pennant, and a wedge.
The pennant hasn’t shown any signs of a breakout. Price is near the top of the rounding bottom.

**Question 1:** Do you buy, short, or avoid trading this stock?

**Question 2:** If trading this one, what is the target price?

**Question 3:** If trading this one, what is the stop price?

The answers appear on the next page.
Here’s my notebook entry for the trade. It provides the answers.

“Date: 7/27/05
Filled at: 10.31
Stop: 9.27 or 10%
Upside target: 11.24 (7/21) - 6.45 (4/27) for a height of 4.79 * 57% (percentage meeting price target) = 2.73 + 11.24 = 13.97.
Future S&P direction (guess): Downward because of overhead resistance.
Buy reason: Rounding turn. There is much support at 10.50 which the stock is struggling to breech. I think this will hold and the stock will tumble back to support at 10.30, so I place an order to buy at 10.31. Right now, the stock is rounding over, heading back down. It's at 10.43. News is that earnings were in-line, but the market didn't like it. The stock gapped open and I saw a small ascending triangle form but didn't act on it at 10.20 to 10.30. I missed my chance. I still believe in the stock. Once it pushes through this knot of resistance at 10-11, it could pop.”

This is the chart on 8/1/2005. The stock has closed above the pennant’s trendline boundary. The three Vs are the 3 rising valleys chart pattern. E and E is an unconfirmed Eve & Eve double bottom. TT is a triple top or maybe a head-and-shoulders. The E in April 2005 is part of an Eve & Adam double bottom, but the price difference between the two bottoms seems large.

**Question:** If you didn’t buy before, do you now? My answer is on the next page.
Here’s my notebook entry.

“Date: 8/1/05
Filled at: Canceled before execution
Stop: 9.91
Upside target: 15
Future S&P direction (guess): Down
Buy reason: Rounding bottom. I like the way this stock is behaving. It shows a small knot of congestion (pennant) just after the breakout from a rounding bottom. I want to buy more if it continues to rise.”

I don’t remember why I canceled the trade… Here’s additional notebook entries.

“8/31/05 Stop raised to 9.91, below the 10 round number and below SAR setup by overhead prices. 9/6/05 Stop raised to 10.61, below 62% Fib retrace and just below the low of 10.65 on 8/31. I don’t trust to put it closer. 9/7/05 Stop raised to 11.03, just below the 62% Fib retrace value and closer to today's close.”

The black dots show the date and price in which the stops were placed.

**Question:** Do you sell the stock after the sharp vertical move? Then next page shows what happened next.
Here’s my notebook entry. “9/21/05 I believe the stock is heading down so it's time to sell.”

**Question**: Do you agree? The answer appears on the next page.
More notebook stuff:

“9/22/05 I watched the stock throughout the day. It was up in the morning so I thought it would hang in there, but no! Tomorrow, I'll try to time it on the up swing.

“Date: 9/23/05
Filled at: 11.41
Sell reason: The stock has started moving down and I waited too long to sell. Getting out was full of problems as I forgot to cancel my stop order before trying to sell. I didn't know that the order wouldn't go through. When the stock rebounded to a higher price, I put in a limit order to sell but it took too long and didn't take. Price tumbled before I changed it to a market order and dumped it. Next time, just dump the thing. Selling now allows me to exit with a tidy profit and buy back in if I see the stock rebounding.”

The stock never climbed to the 13.97 target. The stock did rebound but made a lower high, a sign of trouble. When the general market tumbled in the last few days, the stock followed. I made 10.5% in 58 days, or 66% annualized. Now, wouldn’t that be nice?

The end.